

UNION STEEL HOLDINGS LIMITED

(Incorporated in the Republic of Singapore)

Company Registration Number 200410181W

ASSETS ACQUISITION AGREEMENT - PROPOSED ACQUISITION

*All capitalised terms used and not defined herein shall have the same meanings given to them in the announcements dated 18 June 2013 and 2 July 2013 (the “**Announcements**”).*

1 INTRODUCTION

The board of directors (the “**Board**”) of the Union Steel Holdings Limited (the “**Company**”) (and together with its subsidiaries, the “**Group**”) refers to its Announcements. Further thereto, the Board wishes to announce that its wholly-owned subsidiary and special purpose vehicle, Union CHH Sdn. Bhd. (“**Union CHH**” or the “**Purchaser**” or the “**SPV**”) has entered into an assets acquisition agreement dated 24 April 2014 (the “**Assets Acquisition Agreement**”) with Chye Hup Heng Sdn Bhd (“**CHH**” or “**Vendor**”) and Mr Sia Beng Kwee and Mr Sia Beng San (collectively the “**Guarantors**”) (collectively, the Purchaser, the Vendor and the Guarantors shall be referred to as the “**Parties**”) in respect of acquiring, *inter alia*, eight (8) parcels of land situated in Malaysia and all the buildings situated thereon (“**Properties**”), the plant, machineries, equipment (including but not limited to a shredder plant (“**Shredder Plant**”) and vehicles (collectively the “**Equipment**”) (the Properties, Shredder Plant and Equipment are collectively referred to as the “**Assets**”) in relation to CHH’s metal recycling businesses in Malaysia (“**Proposed Acquisition**”). Concurrently, the SPV had also executed separate individual sale and purchase agreement (“**Property SPA**”) with the Vendor in respect of each of the Properties.

2 About CHH

The information in this section relating to CHH is based on information provided by and/or representations made by CHH. The Directors have not conducted an independent review or verification of the accuracy of the statements and information below.

- 2.1 As disclosed in the announcement dated 18 June 2013, CHH is a private limited company that engages in businesses comprising the processing of ferrous metal scrap and trading of steel mill related products. It involves the segregation, reducing, shearing and compressing of ferrous scrap into manageable sizes to meet its customers’ requirements essentially known as metal recycling in Malaysia.
- 2.2 The directors of CHH are Mr. Sia Beng San and Mr. Sia Beng Kwee, both of whom are brothers and also own the entire shareholding of CHH.

2.3 CHH is currently under a scheme of arrangement with its creditors (“SOA”) pursuant to Section 176 of the Malaysian Companies Act 1965 and ceased its metal recycling business in January 2013.

2.4 As disclosed in the Announcements, Union CHH was incorporated to carry out the Group’s metal recycling business operations in Malaysia after the signing of the Heads of Terms, as part of a collaborative effort between Union CHH and the Vendor, pending the completion of the Proposed Acquisition.

3 SALIENT TERMS OF THE ACQUISITION AGREEMENT AND THE PROPERTY SPA

3.1 Information in relation to the key Assets to be acquired pursuant to the Proposed Acquisition is set out below:-

(a) Properties

<u>No.</u>	<u>Particulars of Properties</u>	<u>Consideration (RM)</u>
1.	HS(D) 266013 PTD 148197, Mukim Plentong, Johor Bahru, Johor	3,710,000
2.	HS(M) 14813 PT 18964 Mukim Klang, Selangor	9,200,000
3.	HS(D) 438268 PTD 190832, Plentong, Johor	5,350,000
4.	GM 824 Lot 747 Kapar, Klang, Selangor	11,800,000
5.	HS(M) 3729 PTD 151885, Tebrau, Johor	3,530,000
6.	HS(D) 1504 PT 9397 Kuala Kuantan, Kuantan Pahang	2,200,000
7.	A parcel of vacant land known as Lot 10218 HS(D) 12745, Plentong, Johor	700,000
8.	A parcel of vacant land known as Lot 10277 HS(D) 12766, Plentong, Johor	740,000
	Total	37,230,000

(b) Equipment

<u>No.</u>	<u>Particulars of Shredder Plant and Equipment</u>	<u>Consideration (RM)</u>
1.	One (1) unit of Shredder Plant together with its component machinery and equipment located at PLO 689, Jalan Keluli 5, Pasir Gudang Industrial Estate, 81700 Pasir Gudang, Johor Darul Takzim	2,500,000.00

2.	Eight (8) units of excavators	369,776.60
3.	Six (6) units of bundle machines	719,913.00
4.	Nine (9) units of forklifts	157,314.32
5.	Three (3) units of paper press machines	288,814.00
6.	Seven (7) units of cars	388,567.18
7.	Four (4) units of lorries	124,993.60
	Total	4,549,378.70

3.2 Purchase Consideration:

(a) The aggregate consideration for the Proposed Acquisition is approximately **RM41,779,378** (which is equivalent to S\$16,131,000 based on the exchange rate of S\$1 to RM2.59) (the "**Purchase Consideration**"). The breakdown of the Purchase Consideration is as follows:-

- (i) The market value of the Properties at **RM37,230,000** (which is equivalent to S\$14,375,000 based on the exchange rate of S\$1 to RM2.59) in aggregate valued by Knight Frank Malaysia Sdn Bhd ("**Knight Frank**") (who were commissioned by the Company to carry out the said valuation) as set out in its valuation reports dated 10 June 2013 ("**Properties Purchase Consideration**");
- (ii) The salvage value of the shredder plant together with its component machinery and equipment located at PLO 680, Jalan Keluli 5, Pasir Gudang Industrial Estate, 81700 Pasir Gudang Johor Darul Takzim valued at **RM2,500,000** (which is equivalent to S\$965,000 based on the exchange rate of S\$1 to RM2.59) by Knight Frank as set out in its valuation report dated 1 July 2013 ("**Shredder Plant Purchase Consideration**"); and
- (iii) The outstanding hire purchase sum due to the hire purchase creditors namely Ambank (M) Berhad, Public Bank Berhad, BMW Credit Malaysia Sdn Bhd, RHB Bank Berhad and Eon Bank Berhad ("**Hire Purchase Creditors**") in respect of the Equipment as at 18 June 2013 namely, **RM2,049,378** (which is equivalent to S\$791,000 based on the exchange rate of S\$1 to RM2.59) ("**Equipment Purchase Consideration**"),

(the Shredder Plant Purchase Consideration and the Equipment Purchase Consideration collectively referred to as the "**Aggregate Equipment Purchase Consideration**").

(b) A payment of RM400,000 (which is equivalent to S\$154,000 based on the exchange rate of S\$1 to RM2.59) has been made by the Purchaser on 18 June 2013 as an earnest deposit (the "**Earnest Deposit**") pursuant to the Heads of Terms and is currently held by the Vendor's solicitors, Messrs Teja Singh Penesar & Co.. The Parties agreed that the Earnest Deposit shall be set-off against part of the Shredder Plant Purchase Consideration at the relevant Completion Date (as defined below).

- (c) It is also expressly agreed between the Parties that the Purchase Consideration will be paid directly to the secured creditor banks namely Malayan Banking Berhad, United Overseas Bank (Malaysia) Berhad, AmBank (M) Berhad and CIMB Bank Berhad (“**Secured Creditor Banks**”) and Hire Purchase Creditors respectively.
- (d) The Purchase Consideration has been arrived at after arms' length negotiations, on a willing buyer-willing seller basis after taking into account the valuation reports referred to in paragraph 3.2(a)(i) and (ii) above.
- (e) The Proposed Acquisition will be funded by a combination bank loans and internally generated funds.

3.3 Other Salient Terms of the Assets Acquisition Agreement

(a) Conditions precedent for the Assets Acquisition Agreement

The Proposed Acquisition is conditional upon, *amongst others*, the following:-

- (i) the completion of a legal and operational due diligence exercise and a financial review by the Purchaser on the Vendor and the results of such exercise being satisfactory to the Purchaser in its sole and absolute discretion;
- (ii) the approval by the Singapore Exchange Securities Trading Limited (“**SGX-ST**”) for the Proposed Acquisition (if required) and if such approval is subject to conditions, such conditions being reasonably acceptable to the Vendor and the Purchaser, and such approval remaining in full force and effect at the Completion Date;
- (iii) the requisite approval of the shareholders of the Company at an extraordinary general meeting (“**EGM**”) having been obtained for the Proposed Acquisition;
- (iv) no material adverse change or events, acts or omissions likely to lead to such change, in the Assets, prospects, performance, financial position or results of operations of the Vendor (as reasonably determined by the Purchaser in its discretion) occurring on or before the Completion Date;
- (v) the requisite approval for the SOA being obtained from the Secured Creditor Banks constituting a majority in number representing three-fourths in value of the Secured Creditor Banks present and voting either in person or proxy at the court convened meeting as required under Section 176 of the Malaysian Companies Act 1965 and if there are any conditions and/or alterations imposed by the Secured Creditor Banks relating to the Assets, such conditions and/or alterations being acceptable to the Purchaser in its sole and absolute discretion;
- (vi) the requisite court sanction being obtained for the SOA and if there are any conditions and/or alterations imposed by the court, such conditions and/or alterations being acceptable to the Purchaser in its sole and absolute discretion and the court order in respect of the said sanction having been duly lodged with the Companies Commission of Malaysia;

- (vii) the Vendor having obtained a permanent stay of the winding up order pending appeal from the High Court of Kuala Lumpur in respect of suit no. 28NCC-976-11/2013 and a permanent stay of the winding up order from the Court of Appeal against the winding up order dated 20 January 2014 granted against the Vendor by High Court of Kuala Lumpur in the suit no. 28NCC-976-11/2013;
 - (viii) there being no other winding up order granted against the Vendor which is still valid and subsisting;
 - (ix) the restraining orders granted in favour of the Vendor under section 176 of the Companies Act 1965 having been extended beyond 14 June 2014 to such a date which is not earlier than the last Completion Date;
 - (x) if applicable, all other necessary court orders, consents or releases have been obtained in terms acceptable to the Purchaser from the court, relevant financial institutions, relevant state authority and other third parties, including without limitation the High Court of Malaya, as evidenced by written confirmation, in relation to Proposed Acquisition contemplated herein, the Scheme of Arrangements, mortgages, charges or other borrowing arrangements of the Vendor and the guarantors (where applicable);
 - (xi) the Assets being free of all liens, mortgages, security interests and encumbrances whatsoever on or before the relevant Completion Date;
 - (xii) all other permit, permission, licence, approval, authorisation, consent, clearance, waiver, no objection certificate or other authorisation of whatever nature and by whatever name called, from or by any applicable governmental or regulatory body or authority or any other third party, whether under any applicable laws or relevant agreement, contract, instrument or other document or otherwise ("**Consents, Licenses and Approvals**") in respect of the sale and purchase of the Assets contemplated in the Assets Acquisition Agreement being obtained and remaining in full force and effect;
 - (xiii) receipt by the Purchaser of all Consents, Licences and Approvals for the Purchaser to undertake the metal recycling operations, including but not limited to the relevant second hand dealer's licence required to carried out the metal recycling business; and
 - (xiv) the service agreements between the Purchaser and each of Mr Sia Beng Kwee and Mr Sia Beng San have been duly executed and remain in full force and effect.
- (b) The Vendor and each of the Guarantors have jointly and severally agreed with and undertaken to the Purchaser *amongst others*:-
- (i) that with effect from the earliest Completion Date without limit in point of time, the Vendor shall permanently cease to carry on its business of metal recycling and trading of scrap metal;
 - (ii) that if so required by the Purchaser at any time, the Vendor shall (at their own cost and expense) as soon as possible but in any event not more than fourteen (14) days upon receipt of request from the Purchaser procure the Vendor to be wound up;

- (iii) that with effect from the date of the Assets Acquisition Agreement, that the Vendor and the Guarantors shall (a) immediately assist the Purchaser in the application for the second hand dealer's licence for every location at which the business of metal recycling and trading of scrap metal is to be conducted by the Purchaser and (b) until the Purchaser obtains such second hand dealer's licence for each relevant location, the Vendor and the Guarantors shall exclusively and unconditionally use their second hand dealer's licences for the Purchaser's sole benefit only to the extent permissible by law; and
- (iv) to facilitate the Purchaser's carrying on of the business of metal recycling and trading of scrap metal on the day immediately after the earliest Completion Date for the sale and purchase of the Assets, (a) the Purchaser shall be permitted to carry on such business on the Vendor's Properties without any costs of whatever nature to the Purchaser until the Completion Date for the relevant Property or if the relevant Property SPA is terminated for any reason whatsoever, until the expiry of two (2) months from the termination date, and (b) without prejudice to any provisions of this Agreement, at the request and direction of the Purchaser on or after the earliest Completion Date, CHH shall assist on and facilitate the business operations of the Purchaser relating to metal recycling and trading of scrap metal in such manner and to such extent and for such duration as the Purchaser shall require and direct in its sole discretion until the Purchaser has obtained the relevant second hand dealer's licences.

3.4 Other Salient Terms of the Property SPA

(a) Conditions precedent for the Property SPA

The completion of the Property SPA is conditional upon, *amongst others and where applicable*, the following:-

- (i) the Vendor and the SPV (as the case may be) obtaining the approval of relevant state authority within three (3) months from the date of the Property SPA or such extend time as agreed between the Vendor and the Company;
 - (ii) the Vendor obtaining the relevant permits and licences in respect of the Properties (where applicable); and
 - (iii) the SPV obtaining a manufacturing licence or a waiver letter from Ministry of International Trade and Industry or its relevant subsidiary (where applicable).
- (b) The Vendor declares, represents and warrants to the SPV that within fourteen (14) days from the date of receipt of the request from the SPV's solicitors or solicitors acting for the Company's financier, it shall:-
- (i) obtain a statement issued by the Secured Creditor Banks evidencing that the outstanding sum due and payable by the Vendor to the Secured Creditor Bank shall be the full purchase consideration in respect of each of the Properties only; and
 - (ii) procure the Secured Creditor Banks' undertaking to deliver the valid and registrable discharge of charge, the issue document of title, the registered duplicate charge and all

other relevant documents upon settlement of the redemption sum and to refund the redemption sum in the event that the discharge of charge is not registrable for whatsoever reasons.

- (c) The SPV is entitled to lodge a private caveat over each of the Properties pending completion.

3.5 Completion

Subject to all the conditions precedent referred to in paragraphs 3.3 and 3.4 above being satisfied or waived by the Purchaser as the case may be:-

- (a) the Properties Purchase Consideration shall be paid in accordance with the terms of each Property SPA on the respective Completion Dates determined in accordance with each Property SPA, in any event no later than six (6) months from the date of the Assets Acquisition Agreement or such later dates as the Parties may mutually agree in writing ("**Long-stop Date**"); and
- (b) the remaining Equipment Purchase Consideration (after the deduction of the Earnest Deposit paid directly by Messrs Teja Singh Penesar & Co. to the Secured Creditor Bank (Malayan Banking Berhad) to satisfy part of the Shredder Plant Purchase Consideration) shall be paid by way of cheques made payable to the Secured Creditor Bank (Malayan Banking Berhad) in respect of the remaining Shredder Plant Purchase Consideration and payable to the name of the respective Hire Purchase Creditors in the amounts as set out in the Assets Acquisition Agreement on the Completion Date, which shall be no later than ten (10) business days after the day on which last of the conditions precedent referred to in paragraph 3.3 above has been satisfied or waived by the Purchaser ("**Completion Date**"), in any event no later than the Long-stop Date.

- 3.6 The Parties have agreed that (a) the completion of the sale and purchase of each of the Assets may not take place simultaneously, (b) each completion is not inter-conditional, and (c) the failure to complete the sale and purchase of any Asset shall not affect the completion of the sale and purchase of other Assets.

4 RATIONALE FOR THE PROPOSED ACQUISITION

The Board is of the view that the Proposed Acquisition is part of the Group's continuing effort to seek the expansion of its current recycling businesses. The Group intends to carry out its existing recycling of ferrous and non-ferrous scrap metal in Malaysia as the Company is currently exporting and supplying the recycled metals from Singapore to its customers in Malaysia. The Company believes that the Proposed Acquisition will allow the Company to expand its customer base in Malaysia and thereby increasing the Company's market share and presence in Malaysia. Further, the Company will also be able to tap on the Malaysian market to source for scrap metals to increase the supply of scrap metal to meet the demands of its customers in Malaysia and in the region. The Proposed Acquisition is therefore in line with Group's business strategies and expansion plans.

5 RELATIVE FIGURES UNDER RULE 1006 OF THE LISTING MANUAL

5.1 The relative figures computed on the bases set out in Rule 1006 of the Listing Manual are as follows:-

Rule 1006(a)

The net asset value of the assets to be disposed of compared with the Company's net asset value *Not Applicable*

Rule 1006(b)

The net profits attributable to the assets acquired compared with the Company's net profits *Not Applicable*⁽¹⁾

Rule 1006(c)

The aggregate value of the consideration given or received compared with the issuer's market capitalisation on 16 April 2014, being the market day immediately preceding the date of the Assets Acquisition Agreement on which shares in the Company were transacted⁽²⁾ 37.9%

Rule 1006(d)

The number of equity securities issued by the issuer as consideration for an acquisition, compared with the number of equity securities previously in issue *Not Applicable*

Notes:

- (1) The latest financial statements of the Vendor do not provide for revenue and costs directly attributable to the Assets that the Company is acquiring, as such financial statements include revenue and costs figures from other assets and businesses of CHH not related to the metal recycling business of the Vendor. Hence, a comparison will not be meaningful. It is also not possible to segregate the relevant financial information due to the fact that all costs are generally shared for the various businesses and there are no segmental reports in this regard. Further, as the Assets acquired are intended for the Group's own use, there will not be any material impact on the Group's profits.
- (2) The aggregate value of the Purchase Consideration given for the Proposed Acquisition is approximately S\$16,131,000, compared to the Company's market capitalisation of approximately S\$42,528,000 (based on 393,781,089 shares in issue and the weighted average price of approximately S\$0.108 per share of the Company on the full market day on which shares were transacted immediately preceding to the date of Assets Acquisition Agreement, namely 16 April 2014).

As the 20% threshold under Rule 1006(c) of the Listing Manual will be exceeded, the Proposed Acquisition is classified as a "major transaction" and will be subject to the approval of shareholders in general meeting.

6 FINANCIAL EFFECTS OF THE PROPOSED ACQUISITION

6.1 Net Tangible Assets (“NTA”)

The financial effects of the Proposed Acquisition on the Group’s NTA and NTA per share for FY2013, assuming that the Proposed Acquisition had been effected on 30 June 2013 are estimated as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
NTA (S\$’000)	74,348	74,348 ⁽¹⁾
No. of shares (’000)	393,781	393,781
NTA per share (S\$ cents)	0.189	0.189 ⁽¹⁾

Notes:

- (1) Based on the Group’s NTA value as at 30 June 2013 of approximately S\$74,378,000, adding the assets value of CHH’s as at 24 April 2014 of approximately S\$16,131,000 (which is equivalent to RM41,779,378 based on the exchange of S\$1 to RM2.59), and less the Purchase consideration of the same amount.

6.2 Earnings per share (“EPS”)

The financial effects of the Proposed Acquisition on the Group’s EPS for FY2013, assuming the Proposed Acquisition had been completed on 1 July 2012 are as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Net profit after tax (S\$ ’000)	6,299	6,610 ⁽¹⁾
Weighted average number of shares (’000)	393,781	393,781
EPS (S\$ cents)	0.016	0.017

Notes:

- (1) On a proforma basis, the Group will incur interest expenses and depreciation on the Assets acquired. As the Assets acquired are intended for the Group’s own use, there will not be any material impact on the Group’s net profit after tax other than certain costs savings derived from owning the Assets acquired.

For the purpose of calculating EPS, the Group has assumed a bank loan interest rate of 5% per annum.

6.3 Gearing ⁽¹⁾

Assuming that the Group finances the Purchase Consideration with bank borrowings and internal funds, the effect of the Proposed Acquisition on the Group's gearing, assuming the Proposed Acquisition had been completed on 30 June 2013, is as follows:

	Before the Proposed Acquisition	After the Proposed Acquisition
Proposed Borrowings (S\$ '000) ⁽²⁾	50,234	63,139
Shareholders' Funds (S\$ '000) ⁽³⁾	83,752	83,752
Gearing ⁽¹⁾	0.600	0.754

Notes:

- (1) "Gearing" is computed based on the ratio of Proposed Borrowings to Shareholders' Funds.
- (2) The expression "Proposed Borrowings" refers to the amounts expressed in Singapore dollars of interest bearing debts arising from borrowings from shareholder(s), financial institutions and non-financial institution lenders less cash and cash equivalents.
- (3) The expression "Shareholders' Funds" refers to the amounts expressed in Singapore dollars represented by the aggregate of the issued and paid-up capital, reserves and retained earnings of the Group excluding the non-controlling interests.

7 DIRECTORS AND CONTROLLING SHAREHOLDERS' INTERESTS IN THE PROPOSED ACQUISITION

None of the Directors or Controlling Shareholders (as defined in the SGX-ST Listing Manual) or their respective Associates (as defined in the SGX-ST Listing Manual) of the Company has any interest, direct or indirect, in the Proposed Acquisition.

8 SERVICE AGREEMENTS

No person will be appointed to the Board in connection with the Proposed Acquisition and no service contracts in relation thereto will be entered by the Company.

9 DOCUMENTS FOR INSPECTION

The following documents are available for inspection during normal business hours at the Company's registered office at 33 Pioneer Road North, Singapore 628474 for a period of three (3) months from the date of this Announcement:

- (i) Assets Acquisition Agreement;

- (ii) Property SPAs;
- (iii) Knight Frank's valuation reports dated 10 June 2013 and 1 July 2013; and
- (iv) Annual Report of the Company for FY2013.

10 CIRCULAR AND TRADING CAUTION

A circular containing further details of the Proposed Acquisition, and enclosing the notice of EGM to be convened in connection therewith, will be despatched by the Company to shareholders in due course.

As the Proposed Acquisition is subject to, *inter alia*, shareholders' approval at EGM and other conditions precedent as set out in the Assets Acquisition Agreement and Property SPAs, there is presently no assurance or certainty that the Proposed Acquisition will materialise. The Company will keep shareholders updated on material developments on the Proposed Acquisition as and when appropriate. **In the meantime, shareholders and other investors are advised to exercise caution when dealing or trading in the shares of the Company. Shareholders and other investors should consult their stockbrokers, bank managers, solicitors, accountants, or other professional advisers, if they have any doubt about the actions they should take.**

BY ORDER OF THE BOARD

Ang Yu Seng

Executive Chairman and Chief Executive Officer

24 April 2014